

Tara Jewels Ltd. (TJL) : "AVOID"

20th November, 2012

*Tara Jewels is an integrated player in the jewellery industry with experience ranging from designing to retailing of jewellery. The Company's business can be divided into three operations namely, manufacturing, exporting and retailing. Its portfolio of products includes gold, platinum, honeydium, pristinium and silver jewellery with or without studded precious and semi-precious stones. Its products have presence across different price points and cater to customers across high end, mid market and value market segments. It has been conferred with status of a Star Trading House by the Ministry of Commerce & Industry, Government of India and have been the highest exporter in gems and jewellery sector for the years 2008-09 and 2009-10 (Source: SEEPZ-SEZ Export Award). Currently promoter Mr. Rajeev Sheth holds 73.15 percent stake in the company while Fabrikant HK Trading Limited and Crystalon Finanz AG hold 16.36 percent and 9.09 percent stake, respectively.*

*At the upper band of the issue price, TJL is valued at 15x - 2MFY13 Annualized EPS/share of Rs. 15.27 /- at upper end of the price band. With due consideration to factors like a) high customer and geographical concentration risk, b) working capital intensive operations, c) poor margin profile, d) high debt/equity ratio, e) negative operating cashflows during the last two years, f) economic uncertainty in the company's major export market, we recommend investors to "AVOID" the issue.*

#### Financial summary (Consolidated)

Y/e 31 Mar (Rs. mn)	2MFY13	FY12	FY11	FY10
Total income	1,791	14,011	11,436	8,062
EBITDA	200	1,338	983	686
EBITDA Margin (%)	11.1	9.5	8.6	8.5
PBT	85	725	534	303
Reported PAT and MI	65	541	407	241
PAT margin (%)	3.63	3.86	3.56	2.98
Equity Capital	180	180	180	118.47
Networth	2,838	2,773	2,213	1,778
Total Debt	6,076	5,578	4,506	2,817
Debt/Equity (x)	2.14	2.01	2.04	1.58
RoNW (%)	-	19.5	18.4	13.5

Source: RHP, Ajcon Research

**Note:** In the offer for sale, the selling shareholder – Fabrikant H.K. Trading Ltd. holds 16.36% stake in the company (Pre – IPO)

#### ABOUT THE COMPANY

The Company has four manufacturing units, of which one is located in Panyu, China. The other three units are located in Mumbai, India out of which two units are situated in SEEPZ and one in MIDC. For the two months period ended May 31, 2012, Fiscal 2012, 2011 and 2010, TJL has achieved an aggregate production of 554.77 kgs, 10,616.40 kgs, 4,753.25 kgs and 2,562.91 kgs of jewellery, respectively. TJL's manufacturing units are spread over an area of 84,584 square feet employing 35 designers and 955 craftsmen, as on September 30, 2012. The Company exports

Issue date	November 21 – 23, 2012
Issue size	<b>Fresh Issue:</b> Rs. 1,095 mn <b>Offer for Sale:</b> Rs. 700 mn
FV	Rs.10
Price Band	Rs. 225-230 per share
Bid size	50 equity shares
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Post issue market capitalization	Rs. 5,934 mn at upper price band
Book Running Lead Managers	Enam and ICICI Securities
IPO Grading	Grade 3/5 by CARE indicating average fundamentals
Registrar to the issue	Link Intime India Pvt. Ltd.

Note: The Company has allotted 1.8 mn equity shares to Crystalon Finanz AG at Rs. 225 per share by way of Pre-IPO Placement.

studded jewellery which is manufactured by the Company and by third party manufacturers. The Company exports studded jewellery to jewellery chains including Christ Uhrean & Schmuck and retailers including Walmart.

It primarily exports to Australia, China, Canada, European Union, South Africa, UAE, UK and USA. In the European Union, it exports to 12 countries including Austria, Germany and Switzerland. The Company's income from export operations has grown at a CAGR of 19.77% from Fiscal 2010 to Fiscal 2012. For the two months period ended May 31, 2012, Fiscal 2012, 2011 and 2010, its income from export operations constitutes 78.82%, 80.90%, 80.99% and 97.59% of its total income, respectively.

The Company conducts its jewellery retail operations under the brand "Tara Jewellers". It entered jewellery retailing in India in October 2008 with the launch of its Existing Store at Andheri, Mumbai and as on the date of this RHP, it operates 30 Existing Stores spread over an aggregate area of 29,949.01 square feet. It intends to launch 20 Project Stores across India by March 31, 2013. TJL's retail stores span across suburban areas of metro cities, mini metros and cities with higher concentration of mid-income segment. Its sales from retail operations increased to Rs. 1,834.81 million in Fiscal 2012 from Rs. 142.74 million in Fiscal 2010 at CAGR of 258.53%. It has been designated as a Nominated Agency for the purposes of direct import of precious metal by the Ministry of Commerce & Industry, Government of India.

The Company's Promoter, Mr. Rajeev Sheth, is a certified gemologist from Gemological Institute of America, USA and bench jeweller trained in USA and Japan. He has over 31 years of manufacturing and retail experience. He is also responsible for introducing concepts like flexible manufacturing units and turntable technology in our Company. For the two months period ended May 31, 2012, Fiscal 2012, 2011 and 2010, its total income was Rs. 1,791.26 million, Rs. 14,010.56 million, Rs. 11,435.68 million and Rs. 8,062.18 million, respectively. Our total income grew at a CAGR of 31.83% from Fiscal 2010 to Fiscal 2012. For the two months period ended May 31, 2012, Fiscal 2012, 2011 and 2010, its net profit after tax and minority interest was Rs. 64.96 million, Rs. 541.28 million, Rs. 406.85 million and Rs. 241.12 million, respectively.

#### OBJECTS OF THE ISSUE

The issue consists of fresh issue by TJL worth Rs. 1,095 mn and offer for sale worth Rs. 700 mn by Fabrikant H.K. Trading Ltd. The objects of the Fresh Issue are summarized below:

S. No	Particulars of expenditure	Amount	Estimated schedule of deployment of Net Proceeds upto March 31, 2013
1	Establishment of retail stores	664.80	664.80
2	Repayment or pre-payment of loans	500	500
3	General Corporate Expenses	-	-

Source: Red Herring Prospectus

#### RISK AND CONCERNS

##### Company's top 10 customers accounted for 70.40% of its total revenue from export operations in FY 2012:

The Company is highly dependent on top 10 customers (in Fiscal 2012) for its export operations. For the two months period ended May 31, 2012, Fiscal 2012, 2011 and 2010, these customers have accounted approximately 75.80%, 70.40%, 53.68% and 52.65% of its revenue from export operations and approximately 59.74%, 56.95%, 43.49% and 51.60% of its total revenue from operations, respectively. Each of these customers is a nonaffiliated third party and is not a related party of company or any of its Subsidiaries. Although company has maintained good and

longstanding relationships with these customers, it does not have any long-term contract with either of them. The loss of either of these customers or a significant reduction in their orders would have a materially adverse effect on its income.

For research related queries contact Mr. Akash Jain, VP - Research at [research@ajcon.net](mailto:research@ajcon.net)

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